

CITY OF FORD, KANSAS

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Ford, Kansas

We have audited the accompanying primary government financial statements of the City of Ford, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described more fully in Note A, the City of Ford, Kansas, has prepared these financial statements using accounting practices prescribed or permitted by the State of Kansas which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

In our opinion, because of the omission of the discretely presented component units, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United State of America, the financial position of the City of Ford, Kansas as of December 31, 2011, or the changes in its financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the primary government of the City of Ford, Kansas, as of December 31, 2011, its cash receipts and expenditures, and budgetary comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note A.

Kennedy McKee & Company LLP

August 20, 2012

CITY OF FORD, KANSAS

SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning unencumbered cash balance (deficit)</u>	<u>Prior year canceled encumbrances</u>	<u>Cash receipts</u>
Governmental funds:			
General fund	\$ 33,989	\$ -	\$ 105,262
Special revenue funds:			
Library	414	-	4,227
Special highway	8,582	-	7,108
Capital improvement	81,525	-	-
Proprietary funds:			
Enterprise funds:			
Water	1,773	-	41,544
Sewer	6,231	-	15,026
Gas	(45,611)	-	178,468
Trash	6,436	-	19,624
KDHE sewer loan payment	-	-	13,216
Total - excluding agency funds	<u>\$ 93,339</u>	<u>\$ -</u>	<u>\$ 384,475</u>
Composition of cash balance:			
Checking accounts			
Savings accounts			
Certificates of deposit			
Total cash			
Agency fund			
Total - excluding agency funds			

The accompanying notes are an integral
part of the financial statements.

<u>Expenditures</u>	<u>Residual equity transfers</u>	<u>Ending unencumbered cash balance (deficit)</u>	<u>Add outstanding encumbrances and accounts payable</u>	<u>Ending cash balance (deficit)</u>
\$ 87,179	\$ -	\$ 52,072	\$ 1,817	\$ 53,889
4,227	-	414	2,105	2,519
8,334	-	7,356	-	7,356
-	-	81,525	-	81,525
36,998	-	6,319	824	7,143
7,649	-	13,608	24	13,632
208,884	-	(76,027)	4,659	(71,368)
17,215	-	8,845	1,409	10,254
13,216	-	-	-	-
<u>\$ 383,702</u>	<u>\$ -</u>	<u>\$ 94,112</u>	<u>\$ 10,838</u>	<u>\$ 104,950</u>
				\$ 5,739
				30,535
				<u>76,755</u>
				113,029
				<u>(8,079)</u>
				<u>\$ 104,950</u>

CITY OF FORD, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

Year ended December 31, 2011

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
General fund	\$ 99,716	\$ -	\$ 99,716	\$ 87,179	\$ 12,537
Special revenue funds:					
Library	4,400	-	4,400	4,227	173
Special highway	12,185	-	12,185	8,334	3,851
Enterprise funds:					
Water	37,000	-	37,000	36,998	2
Sewer	16,000	-	16,000	7,649	8,351
Gas	190,000	-	190,000	208,884	(18,884)
Trash	23,000	-	23,000	17,215	5,785
Total	<u>\$ 382,301</u>	<u>\$ -</u>	<u>\$ 382,301</u>	<u>\$ 370,486</u>	<u>\$ 11,815</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF FORD, KANSAS

GENERAL FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Taxes:				
Ad valorem tax	\$ 35,884	\$ 34,996	\$ 35,399	\$ (403)
Delinquent tax	1,910	924	500	424
Motor vehicle tax	10,843	10,914	10,412	502
Recreational vehicle tax	134	94	158	(64)
16/20M truck tax	-	-	347	(347)
Shared revenue:				
Local sales tax	33,800	31,685	32,500	(815)
Licenses, permits and fees:				
Franchise fees	10,096	5,924	7,000	(1,076)
Licenses	100	25	100	(75)
Interest	2,020	1,160	2,000	(840)
Other:				
Rent	400	100	300	(200)
Oil and gas lease	4,000	4,000	-	4,000
Gas royalty	-	14,349	-	14,349
Miscellaneous	373	1,091	-	1,091
Transfers in:				
Sewer fund	-	-	6,000	(6,000)
Trash fund	-	-	3,000	(3,000)
Total cash receipts	<u>99,560</u>	<u>105,262</u>	<u>\$ 97,716</u>	<u>\$ 7,546</u>
Expenditures:				
Personal services	18,649	21,272	\$ 30,000	\$ 8,728
Contractual services	4,903	6,589	2,000	(4,589)
Capital outlay	-	1,744	2,000	256
General administration	22,710	22,770	17,000	(5,770)
Community building	3,800	6,503	17,000	10,497
Utilities	-	-	-	-
Animal control	46	80	1,000	920
Insurance	5,315	5,409	5,500	91
Repairs and maintenance	7,376	9,596	12,000	2,404
Transfer to KDHE loan fund	13,216	13,216	13,216	-
Total expenditures	<u>76,015</u>	<u>87,179</u>	<u>\$ 99,716</u>	<u>\$ 12,537</u>
Receipts over (under) expenditures	23,545	18,083		
Unencumbered cash, beginning of year	<u>10,444</u>	<u>33,989</u>	<u>\$ 2,000</u>	<u>\$ 31,989</u>
Unencumbered cash, end of year	<u>\$ 33,989</u>	<u>\$ 52,072</u>		

The accompanying notes are an integral part of the financial statements.

CITY OF FORD, KANSAS

LIBRARY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Taxes:				
Ad valorem tax	\$ 3,200	\$ 3,155	\$ 3,191	\$ (36)
Delinquent tax	188	84	-	84
Motor vehicle tax	1,005	979	928	51
Recreational vehicle tax	12	9	14	(5)
16/20M truck tax	-	-	31	(31)
Total cash receipts	4,405	4,227	<u>\$ 4,164</u>	<u>\$ 63</u>
Expenditures:				
Appropriation to Library	4,300	4,227	<u>\$ 4,400</u>	<u>\$ 173</u>
Receipts over (under) expenditures	105	-		
Unencumbered cash, beginning of year	309	414	<u>\$ 236</u>	<u>\$ 178</u>
Unencumbered cash, end of year	<u>\$ 414</u>	<u>\$ 414</u>		

The accompanying notes are an integral
part of the financial statements.

CITY OF FORD, KANSAS

SPECIAL HIGHWAY FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			Variance favorable (unfavorable)
	2010	Actual	Budget	
Cash receipts:				
State of Kansas gas tax	\$ 8,770	\$ 7,108	<u>\$ 8,910</u>	<u>\$ (1,802)</u>
Expenditures:				
Street repair	<u>2,903</u>	<u>8,334</u>	<u>\$ 12,185</u>	<u>\$ 3,851</u>
Receipts over (under) expenditures	5,867	(1,226)		
Unencumbered cash, beginning of year	<u>2,715</u>	<u>8,582</u>	<u>\$ 3,275</u>	<u>\$ 5,307</u>
Unencumbered cash, end of year	<u>\$ 8,582</u>	<u>\$ 7,356</u>		

The accompanying notes are an integral
part of the financial statements.

CITY OF FORD, KANSAS

WATER FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			Variance favorable (unfavorable)
	2010	Actual	Budget	
Cash receipts:				
Customer charges	\$ 36,702	\$ 41,544	\$ 33,000	\$ 8,544
Expenditures:				
Personal services	19,869	19,050	\$ 21,000	\$ 1,950
Contractual services	1,501	1,836	500	(1,336)
Commodities	1,955	1,989	2,500	511
Capital outlay	447	1,862	2,500	638
Utilities	7,114	7,958	6,000	(1,958)
General administration	84	50	500	450
Repairs and maintenance	7,846	4,228	4,000	(228)
Deposit interest	3	25	-	(25)
Total expenditures	38,819	36,998	\$ 37,000	\$ 2
Receipts over (under) expenditures	(2,117)	4,546		
Unencumbered cash, beginning of year	3,890	1,773	\$ 4,889	\$ (3,116)
Unencumbered cash, end of year	\$ 1,773	\$ 6,319	\$ 889	\$ 5,426

The accompanying notes are an integral part of the financial statements.

CITY OF FORD, KANSAS

SEWER FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Customer charges	\$ 14,841	\$ 15,026	\$ 13,100	\$ 1,926
Expenditures:				
Personal services	6,366	5,743	\$ 8,000	\$ 2,257
Contractual services	-	706	1,000	294
Commodities	542	564	1,000	436
Utilities	552	25	-	(25)
Repairs and maintenance	1,150	611	-	(611)
Transfer to general fund	-	-	6,000	6,000
Total expenditures	8,610	7,649	\$ 16,000	\$ 8,351
Receipts over (under) expenditures	6,231	7,377		
Unencumbered cash, beginning of year	-	6,231	\$ 3,600	\$ 2,631
Unencumbered cash, end of year	\$ 6,231	\$ 13,608	\$ 3,600	\$ 10,008

The accompanying notes are an integral part of the financial statements.

CITY OF FORD, KANSAS

GAS FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			Variance favorable (unfavorable)
	2010	Actual	Budget	
Cash receipts:				
Customer charges	<u>\$ 155,070</u>	<u>\$ 178,468</u>	<u>\$ 190,000</u>	<u>\$ (11,532)</u>
Expenditures:				
Personal services	38,199	34,546	\$ 43,500	\$ 8,954
Contractual services	3,849	3,055	6,000	2,945
Cost of gas and transportation	147,783	162,059	128,000	(34,059)
General administration	1,822	117	2,000	1,883
Repairs	4,125	3,758	6,000	2,242
Sales tax	2,675	2,974	2,500	(474)
Utilities	<u>2,228</u>	<u>2,375</u>	<u>2,000</u>	<u>(375)</u>
Total expenditures	<u>200,681</u>	<u>208,884</u>	<u>\$ 190,000</u>	<u>\$ (18,884)</u>
Receipts over (under) expenditures	(45,611)	(30,416)		
Unencumbered cash (deficit), beginning of year	<u>-</u>	<u>(45,611)</u>	<u>\$ -</u>	<u>\$ (45,611)</u>
Unencumbered cash (deficit), end of year	<u>\$ (45,611)</u>	<u>\$ (76,027)</u>	<u>\$ -</u>	<u>\$ (76,027)</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF FORD, KANSAS

TRASH FUND

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			Variance favorable (unfavorable)
	2010	Actual	Budget	
Cash receipts:				
Customer charges	<u>\$ 19,846</u>	<u>\$ 19,624</u>	<u>\$ 18,100</u>	<u>\$ 1,524</u>
Expenditures:				
Contractual services	20,361	17,215	\$ 20,000	\$ 2,785
Repairs and maintenance	15	-	-	-
Transfer to general	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>3,000</u>
Total expenditures	<u>20,376</u>	<u>17,215</u>	<u>\$ 23,000</u>	<u>\$ 5,785</u>
Receipts over (under) expenditures	(530)	2,409		
Unencumbered cash beginning of year	<u>6,966</u>	<u>6,436</u>	<u>\$ 5,067</u>	<u>\$ 1,369</u>
Unencumbered cash, end of year	<u>\$ 6,436</u>	<u>\$ 8,845</u>	<u>\$ 5,067</u>	<u>\$ 3,778</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF FORD, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - NONBUDGETED FUNDS

For the year ended December 31, 2011

	<u>Special revenue</u> <u>Capital</u> <u>improvement</u>	<u>Enterprise</u> <u>KDHE</u> <u>sewer loan</u> <u>payment</u>	<u>Total</u>
Cash receipts:			
Transfer from general fund	\$ -	\$ 13,216	\$ 13,216
Expenditures:			
Principal	-	9,208	9,208
Interest	-	3,686	3,686
Loan service fee	-	322	322
Total expenditures	-	13,216	13,216
Receipts over expenditures	-	-	-
Unencumbered cash, beginning of year	81,525	-	81,525
Unencumbered cash, end of year	<u>\$ 81,525</u>	<u>\$ -</u>	<u>\$ 81,525</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF FORD, KANSAS

AGENCY FUND

STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS - ACTUAL

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning cash balance</u>	<u>Cash receipts</u>	<u>Cash disbursements</u>	<u>Ending cash balance</u>
Utility deposit fund	<u>\$ 9,463</u>	<u>\$ 1,600</u>	<u>\$ 2,984</u>	<u>\$ 8,079</u>

The accompanying notes are an integral
part of the financial statements.

CITY OF FORD, KANSAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies applied in the preparation of the accompanying financial statements is presented to assist in understanding the City's financial statements which are presented in conformity with the cash basis and budget laws of the State of Kansas. The financial statements and notes are representations of the City's management, which is responsible for their integrity and objectivity. The amounts shown for 2010 in the accompanying financial statements are included, where practicable, only to provide a basis for comparison with 2011, and are not intended to present all information necessary for a fair presentation in accordance with the basis of accounting as described below.

1. Reporting entity

The City of Ford is a municipal corporation governed by an elected mayor and five-member council. The scope of the entity for financial reporting purposes is defined as those funds for which the governing body of the City has financial accountability. Financial accountability includes budgetary authority and fiscal management responsibility. Budgetary authority is defined as authority for final approval of budgetary appropriations and revisions. Fiscal management responsibility is control of the collection and disbursement of funds. These financial statements include all funds included in the City's legally adopted budget. These financial statements present the City of Ford, Kansas (the primary government) and do not include its component unit.

Component unit

The Ford City Library provides library services to the community. The Library operates as a separate governing body, but the City levies taxes for the Library. Financial information for the Library may be obtained at:

Ford City Library
710 E. 8th
Ford, KS 62842

2. Fund accounting

The accounts of the City are organized on the basis of funds. In governmental accounting a fund is designated as a sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations and constituting an independent fiscal and accounting entity. City resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The following types of funds comprise the financial activities of the City for the year of 2011:

General Fund

This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Fund accounting (continued)

Special Revenue Funds

These funds are established to account for the proceeds of specific revenue sources other than special assessments, trust funds, or major capital projects that are restricted by law or administrative action to expenditure for specified purposes.

Proprietary Funds

Enterprise Funds

These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund

Agency Fund

This fund is used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds.

3. Statutory basis of accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund and an expenditure is charged in the fund from which the transfer is made.

The City Council has adopted a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

4. Departure from accounting principles generally accepted in the United States of America.

The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. A statement of net assets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences is not presented in the financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for the Capital Improvement fund or the KDHE Sewer Loan Payment fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

6. Cash and investments

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in interest-bearing deposits and disclosed as part of the City's investments.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Ad valorem tax revenue

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. Taxes are levied by November 1 and a lien for all taxes attaches on that same date until the taxes are paid. One-half of the property taxes is due December 20 and distributed to the City by January 20, and the second half is due May 10 and distributed to the City by June 5. The City draws available funds from the County Treasurer's office at designated times throughout the year.

8. Compensated absences

Sick leave accrues as a rate of half a day per month to a maximum of 30 days. Employees are allowed two days personal leave. Employees receive two weeks of vacation per year.

9. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to cover health, property, liability, and worker's compensation claims. There have been no significant reductions in coverage from the prior year, and settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

10. Other Post Employment Benefits

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

11. Deferred compensation plan

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457.

12. Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts and the disclosures at the date of the financial statements. Actual results could differ from those estimates.

B. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration to the Director of Accounts and Reports and for interpretation by the legal representatives of the City.

The cash basis law provided by K.S.A. 10-1113 prohibits the creation of indebtedness in any fund greater than the unencumbered cash of that fund. The Gas Fund had a cash basis violation of \$76,027.

The budget law provided by K.S.A. 79-2935 prohibits the expenditure of funds in excess of that allowed by budget. Expenditures exceeded the adopted budget of the Gas fund by \$18,884.

C. DEPOSITS AND INVESTMENTS

Policies. The City has no formal deposit and investment policies; however it does follow state statutes. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds to have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks to provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the City's deposits in financial institutions to be entirely covered by federal depository insurance, by a corporate surety bond, or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. Additionally, K.S.A. 10-131(a)(6) authorizes the City to invest proceeds of bonds in obligations of the Federal National Mortgage Association, Federal Home Loan Banks, or the Federal Home Loan Mortgage Corporation. State statutes place no limit on the amount the City may invest in any one issuer.

Custodial credit risk - deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. At year-end the carrying amount of the City's deposits, including certificates of deposit, was \$104,950. The bank balance was \$128,048, all of which was covered by FDIC insurance.

D. LONG-TERM DEBT

Changes in long-term liabilities for the entity for the year ended December 31, 2011, were as follows:

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ net change</u>	<u>Balance end of year</u>	<u>Interest and service fees paid</u>
Loan: Kansas Water Pollution Control Revolving Loan Issued December 1, 2004 in the amount of \$196,965 at interest rate of 3.10% maturing September 1, 2022	\$ 131,600	\$ -	\$ 9,208	\$ 122,392	\$ 3,686

D. LONG-TERM DEBT (CONTINUED)

Current maturities of loan and interest for the next five years and thereafter through maturity are as follows:

	<u>Principal due</u>	<u>Interest</u>	<u>Total due</u>
2012	\$ 9,495	\$ 3,421	\$ 12,916
2013	9,792	3,149	12,941
2014	10,098	2,867	12,965
2015	10,414	2,577	12,991
2016	10,739	2,278	13,017
2017-2021	58,940	6,616	65,556
2022	<u>12,914</u>	<u>277</u>	<u>13,191</u>
Total	<u>\$ 122,392</u>	<u>\$ 21,185</u>	<u>\$ 143,577</u>

E. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets and service debt. The governmental and proprietary type funds financial statements generally reflect such transactions as transfers.

A summary of interfund operating transfers is as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Statutory authority</u>
General fund	KDHE Sewer Loan Payment fund	\$ 13,216	Ordinance

F. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 20, 2012, the date on which the financial statements were available to be issued. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.